

Township of Watertown

Tuscola County, Michigan

79-1210

Audited Financial Report

March 31, 2004

Lehn L. King

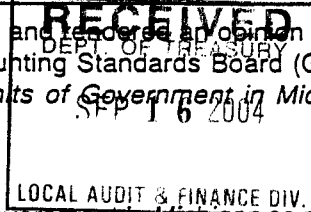
Certified Public Accountant
Marlette, Michigan

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

| | | | |
|--|------------------------------|--|-------------------|
| Local Government Name (Specify) <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other Watertown Township | | | County Tuscola |
| Audit Date March 31, 2004 | Opinion Date June 8, 2004 | Date Accountant Report Submitted to State: June 8, 2004 | |

We have audited the financial statements of this local unit of government and express an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.



We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | X | | |
| Reports on individual federal financial assistance programs (program audits). | | | X |
| Single Audit Reports (ASLGU). | | | X |

| | | | |
|---|------------------|-------------|--------------|
| Certified Public Accountant (Firm Name) Lehn L. King, C.P.A. | | | |
| Street Address 3078 S. Main Street | City Marlette | State MI | ZIP 48453 |
| Accountant Signature <i>Lehn L. King</i> | | | |

Township of Watertown
Annual Financial Report
For The Fiscal Year Ended March 31, 2004

Table of Contents

| | <u>Page Number</u> |
|--|-------------------------------|
| I. Audit Report | 1 |
| II. Combined Statements - Overview (General Purpose Financial Statements):..... | 2 |
| Combined Balance Sheet - Cash Basis - All Fund Types..... | 3 |
| Combined Statement of Revenues, Expenditures, & Changes in Fund Balances - Cash Basis - Actual - All Governmental Fund Types | 4-5 |
| Combined Statement of Revenues, Expenditures, & Changes in Fund Balances - Cash Basis - Actual Compared to Budget - All Governmental Fund Types | 6-7 |
| III. Notes to Financial Statements | 8-13 |
| IV. Supporting Schedules..... | 14 |
| Special Revenue Funds | |
| Combining Balance Sheet - Cash Basis | 15 |
| Combining Statement of Revenues, Expenditures, & Changes in Fund Balances | 16 |
| Fire Reserve Fund | |
| Statement of Revenues, Expenditures, & Changes in Fund Balance - Cash Basis - Budget & Actual..... | 17 |
| Murphy Park Fund | |
| Statement of Revenues, Expenditures, & Changes in Fund Balance - Cash Basis - Budget & Actual..... | 18 |
| Library Fund | |
| Statement of Revenues, Expenditures, & Changes in Fund Balance - Cash Basis - Budget & Actual..... | 19 |
| Combining Balance Sheet - All Fiduciary Funds | 20 |

LEHN L. KING

CERTIFIED PUBLIC ACCOUNTANT

3078 S. MAIN STREET
MARLETTE, MICHIGAN 48453

Phone 989-635-3113
Fax 989-635-5580

Members of the Township Board
Watertown Township
Tuscola County, Michigan

Independent Auditor's Report

I have examined the General Purpose Financial Statements of Watertown Township as of March 31, 2004, as listed in the Table of Contents, for the year then ended. These financial statements are the responsibility of the Township's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, Watertown Township, prepares its financial statements on the cash basis, which is comprehensive basis of accounting other than generally accepted accounting principles.

The Township has not maintained a record of its general fixed assets, and accordingly a statement of general fixed assets, required by generally accepted accounting principles, is not included in the financial report.

In my opinion, except for the omission of the information mentioned in the preceding paragraphs, the accompanying statements present fairly the General Purpose Financial Statements of Watertown Township at March 31, 2004, and the revenues it received and expenditures it paid for the year then ended on the basis of accounting described in Note 1.

The accompanying financial information listed as supporting schedules in the Table of Contents is presented for purposes of additional analysis and is not a required part of the General Purpose Financial Statements of Watertown Township. The information has been subjected to the auditing procedures applied in the examination of the combined financial statements, and in my opinion, is fairly stated in all material respects in relation to the General Purpose Financial Statements taken as a whole.

Lehn King

Certified Public Accountant
June 8, 2004

**Combined Statements -
Overview**
(General Purpose Financial Statements)

Township of Watertown

Combined Balance Sheet - Cash Basis

All Fund Types & Account Group

March 31, 2004

| | <u>Governmental Fund Types</u> | | | <u>Account Group</u> | <u>Totals</u> |
|---|--------------------------------|------------------------------|-----------------------------|-------------------------|--------------------------|
| | <u>General Fund</u> | <u>Special Revenue Funds</u> | <u>Fiduciary Fund Types</u> | <u>General L/T Debt</u> | <u>(Memorandum Only)</u> |
| <u>Assets</u> | | | | | |
| Cash - Checking & Super Now Account | \$ 40,733 | \$ 49,565 | \$ 5,257 | \$ 0 | \$ 95,555 |
| Cash - C of D & Savings | 15,503 | 32,354 | 0 | 0 | 47,857 |
| Due From Tax Collection Fund | 1 | 0 | 0 | 0 | 1 |
| Amt to be Provided for General L/T Debt | 0 | 0 | 0 | 68,000 | 68,000 |
| <u>Total Assets</u> | <u>\$ 56,237</u> | <u>\$ 81,919</u> | <u>\$ 5,257</u> | <u>\$ 68,000</u> | <u>\$ 211,413</u> |
| <u>Liabilities & Fund Equity</u> | | | | | |
| <u>Liabilities</u> | | | | | |
| Due To General Fund | \$ 0 | \$ 0 | \$ 1 | \$ 0 | \$ 1 |
| Due To Others | 0 | 0 | 5,256 | 0 | 5,256 |
| Accrued Payroll Taxes | 2,101 | 495 | 0 | 0 | 2,596 |
| Installment Note Payable | 0 | 0 | 0 | 68,000 | 68,000 |
| <u>Total Liabilities</u> | <u>2,101</u> | <u>495</u> | <u>5,257</u> | <u>68,000</u> | <u>75,853</u> |
| <u>Fund Equity</u> | | | | | |
| Fund Balances: | | | | | |
| Designated for Fire Department | 0 | 51,041 | 0 | 0 | 51,041 |
| Designated for Police Department | 15,503 | 0 | 0 | 0 | 15,503 |
| Designated for Cemetery | 0 | 0 | 0 | 0 | 0 |
| Designated for Murphy Park | 0 | 478 | 0 | 0 | 478 |
| Designated for Library | 0 | 29,905 | 0 | 0 | 29,905 |
| Unreserved - Undesignated | 38,633 | 0 | 0 | 0 | 38,633 |
| <u>Total Fund Equity</u> | <u>54,136</u> | <u>81,424</u> | <u>0</u> | <u>0</u> | <u>135,560</u> |
| <u>Total Liabilities & Fund Equity</u> | <u>\$ 56,237</u> | <u>\$ 81,919</u> | <u>\$ 5,257</u> | <u>\$ 68,000</u> | <u>\$ 211,413</u> |

The notes are an integral part of the statements.

Township of Watertown
Combining Statement of Revenues, Expenditures &
Changes in Fund Balances - Cash Basis - All Governmental Fund Types
For The Year Ended March 31, 2004

| | <u>General Fund</u> | <u>Special Revenue Funds</u> | <u>Totals (Memorandum Only)</u> |
|--|--------------------------|--------------------------------------|---|
| <u>Revenues</u> | | | |
| Taxes | | | |
| Property Taxes | \$ 46,757 | \$ 44,644 | \$ 91,401 |
| Property Administrative Fee | 7,308 | 0 | 7,308 |
| Total Taxes | 54,065 | 44,644 | 98,709 |
| State Shared Revenues | 162,342 | 19,329 | 181,671 |
| Licenses & Permits | 4,312 | 0 | 4,312 |
| Other Revenues | | | |
| Rent | 4,800 | 0 | 4,800 |
| Park & Library Fees | 0 | 76 | 76 |
| Fire Runs | 0 | 18,647 | 18,647 |
| Donations | 0 | 4,016 | 4,016 |
| Land Division Assessment - Murphy Park | 0 | 65,531 | 65,531 |
| Reimbursements & Misc. | 3,413 | 1,151 | 4,564 |
| Cemetery Grave Openings, Lots, Deeds | 6,430 | 0 | 6,430 |
| Liquor License Fee | 143 | 0 | 143 |
| Total Other Revenues | 14,786 | 89,421 | 104,207 |
| Interest Earnings | 862 | 846 | 1,708 |
| Loan Proceeds, Grants, & Sale of Real Estate | 0 | 193,680 | 193,680 |
| <u>Total Revenues</u> | <u>\$ 236,367</u> | <u>\$ 347,920</u> | <u>\$ 584,287</u> |

The notes are an integral part of the statements.

Township of Watertown
Combining Statement of Revenues, Expenditures &
Changes in Fund Balances - Cash Basis - All Governmental Fund Types
For The Year Ended March 31, 2004

| | <u>General Fund</u> | <u>Special Revenue Funds</u> | <u>Totals (Memorandum Only)</u> |
|--|-------------------------|--------------------------------------|---|
| <u>Expenditures</u> | | | |
| Supervisor and Assessor | \$ 14,822 | \$ 0 | \$ 14,822 |
| Clerk | 14,465 | 0 | 14,465 |
| Treasurer | 12,141 | 0 | 12,141 |
| Township Board | 4,909 | 0 | 4,909 |
| Board of Review | 663 | 0 | 663 |
| Elections | 2,382 | 0 | 2,382 |
| Township Hall & Grounds | 22,408 | 0 | 22,408 |
| Fire Protection | 318 | 163,445 | 163,763 |
| Highways, Streets, & Bridges | 65,637 | 0 | 65,637 |
| Planning & Zoning | 9,420 | 0 | 9,420 |
| Cemetery | 28,158 | 0 | 28,158 |
| Insurance, Bonds & Dues | 27,579 | 0 | 27,579 |
| Library | 0 | 26,932 | 26,932 |
| Police Protection | 40,755 | 0 | 40,755 |
| Recreation & Parks | 275 | 168,305 | 168,580 |
| Payroll Taxes & Fringe Benefits | 13,524 | 0 | 13,524 |
| Lighting | 2,791 | 0 | 2,791 |
| Professional Fees | 6,423 | 0 | 6,423 |
| Miscellaneous | 0 | 0 | 0 |
| <u>Total Expenditures</u> | <u>266,670</u> | <u>358,682</u> | <u>625,352</u> |
| <u>Excess of Revenues Over</u> | | | |
| <u>(Under) Expenditures</u> | (30,303) | (10,762) | (41,065) |
| <u>Other Financing Sources (Uses)</u> | | | |
| Operating Transfers In (Out) | <u>0</u> | <u>0</u> | <u>0</u> |
| <u>Excess of Revenues & Other Sources</u> | | | |
| <u>Over (Under) Expenditures & Other Uses</u> | (30,303) | (10,762) | (41,065) |
| <u>Fund Balances - April 1, 2003</u> | <u>84,439</u> | <u>92,186</u> | <u>176,625</u> |
| <u>Fund Balances - March 31, 2004</u> | <u>\$ 54,136</u> | <u>\$ 81,424</u> | <u>\$ 135,560</u> |

The notes are an integral part of the statements.

Township of Watertown
Combining Statement of Revenues, Expenditures &
Changes in Fund Balances - Cash Basis - Actual Compared to Budget
All Governmental Fund Types
For The Year Ended March 31, 2004

| | General Fund | | | Special Revenue Funds | | |
|--|-------------------|-------------------|---------------------------|-----------------------|-------------------|---------------------------|
| | Amended Budget | Actual | Over (Under) Budget | Amended Budget | Actual | Over (Under) Budget |
| Revenues | | | | | | |
| Taxes | | | | | | |
| Current Property Taxes | \$ 40,880 | \$ 46,757 | \$ 5,877 | \$ 41,000 | \$ 44,644 | \$ 3,644 |
| Property Taxes - Admin. Fee | 6,100 | 7,308 | 1,208 | 0 | 0 | 0 |
| Total Taxes | 46,980 | 54,065 | 7,085 | 41,000 | 44,644 | 3,644 |
| State Shared Revenues | 160,000 | 162,342 | 2,342 | 20,000 | 19,329 | (671) |
| Licenses & Permits | 3,800 | 4,312 | 512 | 0 | 0 | 0 |
| Other Revenues | | | | | | |
| Rent | 0 | 4,800 | 4,800 | 0 | 0 | 0 |
| Park & Library Fees | 0 | 0 | 0 | 100 | 76 | (24) |
| Fire Runs | 0 | 0 | 0 | 16,000 | 18,647 | 2,647 |
| Donations | 0 | 0 | 0 | 36,150 | 4,016 | (32,134) |
| Land Division Assessment - Murphy Park | 0 | 0 | 0 | 164,325 | 65,531 | (98,794) |
| Reimbursements & Misc. | 14,070 | 3,413 | (10,657) | 200 | 1,151 | 951 |
| Cemetery Grave Open., Lots, Deeds | 6,430 | 6,430 | 0 | 0 | 0 | 0 |
| Liquor License Fee | 143 | 143 | 0 | 0 | 0 | 0 |
| Total Other Revenues | 20,643 | 14,786 | (5,857) | 216,775 | 89,421 | (127,354) |
| Interest Earnings | 183 | 862 | 679 | 250 | 846 | 596 |
| Loan Proceeds, Grants, & Sale of Real Estate | 0 | 0 | 0 | 0 | 193,680 | 193,680 |
| Total Revenues | \$ 231,606 | \$ 236,367 | \$ 4,761 | \$ 278,025 | \$ 347,920 | \$ 69,895 |

The notes are an integral part of the statements.

Township of Watertown
Combining Statement of Revenues, Expenditures &
Changes in Fund Balances - Cash Basis - Actual Compared to Budget
All Governmental Fund Types
For The Year Ended March 31, 2004

| | General Fund | | | Special Revenue Funds | | |
|---|------------------------|-------------------------|---------------------------|-------------------------|-------------------------|---------------------------|
| | Amended Budget | Actual | Over (Under) Budget | Amended Budget | Actual | Over (Under) Budget |
| <u>Expenditures</u> | | | | | | |
| Supervisor & Assessor | \$ 16,400 | \$ 14,822 | \$ 1,578 | \$ 0 | \$ 0 | \$ 0 |
| Clerk | 16,100 | 14,465 | 1,635 | 0 | 0 | 0 |
| Treasurer | 12,700 | 12,141 | 559 | 0 | 0 | 0 |
| Township Board | 4,500 | 4,909 | (409) | 0 | 0 | 0 |
| Board of Review | 750 | 663 | 87 | 0 | 0 | 0 |
| Elections | 3,525 | 2,382 | 1,143 | 0 | 0 | 0 |
| Township Hall & Grounds | 26,100 | 22,408 | 3,692 | 0 | 0 | 0 |
| Fire Protection | 0 | 318 | (318) | 97,450 | 163,445 | (65,995) |
| Highways, Streets, & Bridges | 71,000 | 65,637 | 5,363 | 0 | 0 | 0 |
| Planning & Zoning | 7,200 | 9,420 | (2,220) | 0 | 0 | 0 |
| Cemetery | 29,267 | 28,158 | 1,109 | 0 | 0 | 0 |
| Insurance, Bonds & Dues | 28,000 | 27,579 | 421 | 0 | 0 | 0 |
| Library | 0 | 0 | 0 | 30,900 | 26,932 | 3,968 |
| Police Protection | 42,600 | 40,755 | 1,845 | 0 | 0 | 0 |
| Recreation & Parks | 1,550 | 275 | 1,275 | 169,600 | 168,305 | 1,295 |
| Payroll Taxes/Fringe Benefits | 18,000 | 13,524 | 4,476 | 0 | 0 | 0 |
| Lighting | 4,000 | 2,791 | 1,209 | 0 | 0 | 0 |
| Professional Fees | 6,700 | 6,423 | 277 | 0 | 0 | 0 |
| Miscellaneous | 9,800 | 0 | 9,800 | 0 | 0 | 0 |
| <u>Total Expenditures</u> | <u>298,192</u> | <u>266,670</u> | <u>31,522</u> | <u>297,950</u> | <u>358,682</u> | <u>(60,732)</u> |
| <u>Excess of Revenues Over (Under) Expenditures</u> | <u>(66,586)</u> | <u>(30,303)</u> | <u>(36,283)</u> | <u>(19,925)</u> | <u>(10,762)</u> | <u>(9,163)</u> |
| <u>Other Financing Sources (Uses)</u> | | | | | | |
| Operating Transfers In (Out) | 0 | 0 | 0 | 0 | 0 | 0 |
| <u>Excess of Revenues & Other Sources Over (Under) Expenditures & Other Uses</u> | <u>(66,586)</u> | <u>(30,303)</u> | <u>36,283</u> | <u>(19,925)</u> | <u>(10,762)</u> | <u>9,163</u> |
| <u>Fund Balances - April 1, 2003</u> | <u>75,795</u> | <u>84,439</u> | <u>8,644</u> | <u>92,186</u> | <u>92,186</u> | <u>0</u> |
| <u>Fund Balances - March 31, 2004</u> | <u>\$ 9,209</u> | <u>\$ 54,136</u> | <u>\$ 44,927</u> | <u>\$ 72,261</u> | <u>\$ 81,424</u> | <u>\$ 9,163</u> |

The notes are an integral part of the statements.

Township of Watertown

Notes To Financial Statements
For Year Ended March 31, 2004

The accounting methods and procedures adopted by the Township of Watertown, Tuscola County, Michigan, conform to generally accepted accounting principles as applied to governmental entities. The following notes to the financial statements are an integral part of the Townships Comprehensive Annual Financial Report.

1. Summary of Significant Accounting Policies

Financial Reporting Entity

The Township was incorporated under the laws of the State of Michigan and operates as a General Law Township, with a Township Board form of government. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Township (the primary government) and its component units. The component units discussed below are included in the Township reporting entity because of the significance of their operational or financial relationships with the Township.

Component Units - In accordance with generally accepted accounting principles, there are no component units of Government required to be included in the Financial Reporting Entity either as blended component units or discretely presented component units.

Basis of Presentation - Fund Accounting - The accounts of the Township are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The Township has created several types of funds and a number of discrete funds within each fund type. Each fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures/expenses. The individual funds account for the governmental resources allocated to them for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions.

The funds are grouped into fund types and generic funds as described below:

Governmental Fund Types - These are the funds through which most governmental functions typically are financed. The funds included in this category are as follows:

General Fund: This fund is established to account for resources devoted to financing the general services that the Township performs for its citizens. General tax revenues and other sources of revenue used to finance the fundamental operations of the Township are included in this fund. The fund is charged with all costs of operating the government for which a separate fund has not been established.

Special Revenue Funds: The Special Revenue Funds are used to account for the proceeds of specific revenue resources (other than assessments or expendable trusts) that are legally restricted to expenditures for specified purposes. These funds include: Library Fund, Murphy Park Fund, and Fire Reserve Fund

Fiduciary Fund Types - These funds account for assets held by the Township as a trustee or agent for individuals, private organization, and other units of governments. These funds are as follows:

Expendable Trust and Agency Funds: These funds, used to account for assets held in trust of as an agent for others, include the Tax (property) Collection Fund and the Trust and Agency Fund.

Account Groups - In addition to the broad types of governmental funds, the Township also maintains one account group as described below:

General Long-Term Debt Account Group: This account group is established to account for the Township's long-term debt that will be financed from general governmental resources.

Township of Watertown

Notes To Financial Statements
For Year Ended March 31, 2004

Basis of Accounting - Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The Township utilized the cash basis of accounting for all funds.

Budgetary Data - The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to April 1, the Township Clerk submits to the Township Board a proposed operating budget for the fiscal year commencing April 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior April 1, the budget is legally enacted.
4. The budget is used by the Township Board as a management tool during the year for all budgetary funds. The budgets are adopted on a cash basis which is not consistent with generally accepted accounting principles. Budgetary control is exercised at the departmental level.
5. Budget amounts are as originally adopted, or as amended by the Township Board. Individual amendments were not material in relation to the original appropriations which were amended.

Cash - The Township does not pool cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the Township's investments.

Investments - Debt securities are valued at cost since it is generally the policy of the Township to hold such investments until they mature.

Due To and Due From Other Funds - Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Other Assets - Other assets held are recorded and accounted for at cost.

Fund Equity - The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes. Unreserved retained earnings for proprietary funds represent the net assets available for future operations or distribution. Reserved retained earnings for proprietary funds represent the net assets that have been legally identified for specific purposes.

Revenues and Expenditures/Expenses - Generally, Revenues for governmental funds, tax revenues, fees, and nontax revenues are recognized when received. Grants from other governments are recorded when qualifying expenditures are paid. Expenditures for governmental funds are recorded when paid.

Property Tax Revenues - Property taxes are levied on December 1 based on the assessed value of property as listed on the previous December 31. Assessed values are an approximation of market value. A revaluation of all real property must be made every year.

Property taxes are recognized as revenue when they are collected.

Vacation, Sick Leave, and Other Compensated Absences - The Township does not have any contracts or agreements with its employees or elected officials which require the payment of compensation during absence from duty nor do any such benefits vest to the right of the employee or elected official.

Township of Watertown

Notes To Financial Statements
For Year Ended March 31, 2004

Total Columns - The Combined Financial Statements include total columns that are described as memoranda only. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Interfund transactions have not been eliminated from the total column of each financial statement.

2. Stewardship, Compliance, and Accountability

Michigan Compiled Laws, Section 129.91, authorizes the Local Unit to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

3. Cash and Investments

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the Local Unit's cash deposits are as follows:

| | Carrying Amount | Bank Balances |
|--------------------------------|----------------------------|--------------------------|
| Insured (FDIC) | \$ 143,411✓ | \$ 143,411✓ |
| Uninsured and Uncollateralized | 0 | 0 |
| Total Deposits | \$ 143,411✓ | \$ 143,411✓ |

All cash deposits and investments of the Township are held by the Township in the Township's name.

The GASB Statement 3 risk disclosures for the Local Unit's investments are as follows:

| Investment Type | (1) | (2) | (3) | Carrying Amount | Market Value |
|-------------------------------|------------|------------|------------|----------------------------|-------------------------|
| Risk Categorized | | NONE | | | |
| Operating Funds | | | | | |
| US Treasury Bonds | | | | | |
| Investment in Deferred | | | | | |
| Compensation Plans | | | | | |
| Total Risk-Categorized | | | | | |
| Investments | | | | | |

The cash and investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

- Category 1 Insured or registered, or securities held by the Township or its agent in the Township's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Township's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Township's name.

Township of Watertown

Notes To Financial Statements
For Year Ended March 31, 2004

4. Property Taxes

The Township is responsible for assessing, collecting, and distributing property taxes in accordance with enabling state legislation. Property taxes become a lien on the first day of December of the levy year and may be paid by the following February 14.

Property taxes are not recognized in compliance with NCGAI-3 which states that such revenue is recorded when it becomes measurable and available. Property taxes are recorded as revenue when collected.

The Township levied the following taxes:

| | |
|-----------------------------------|---------------------------------|
| General Government Services/Roads | <u>1.2921</u> mills |
| Fire Equipment | <u>\$50</u> per occupied parcel |

5. Due To / From Other Funds

As of March 31, 2004, interfund receivables and payables that resulted from various interfund transactions were as follows:

| | <u>Due From Other Funds</u> | <u>Due To Other Funds</u> |
|-----------------------------|---------------------------------|-------------------------------|
| General Fund | \$ 1 | \$ 0 |
| Current Tax Collection Fund | <u>0</u> | <u>1</u> |
| Total | <u>\$ 1</u> | <u>\$ 1</u> |

6. Deficit Fund Balance or Retained Earnings Balances of Individual Funds

None

7. Comparative Data

Comparative total data for the prior year has not been presented.

Township of Watertown

Notes To Financial Statements
For Year Ended March 31, 2004

8. Excess of Expenditures over Appropriations in Budgetary Funds

P.A. 621 of 1978, section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Township actual expenditures and budgeted expenditures for the budgetary funds have been shown on an activity basis. The approved budgets of the Township for these budgetary funds were adopted to the activity level.

During the year ended March 31, 2004, the Township incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

| | <u>Total Appropriations</u> | <u>Amount of Expenditures</u> | <u>Budget Variance</u> |
|---------------------------------|---------------------------------|-----------------------------------|----------------------------|
| General Fund | | | |
| Township Board | \$ 4,500 | \$ 4,909 | \$ 409 |
| Fire Protection | 0 | 318 | 318 |
| Planning & Zoning | 7,200 | 9,420 | 2,220 |
| Library Fund | | | |
| Wages | 12,400 | 12,958 | 558 |
| Telephone | 1,500 | 1,602 | 102 |
| Fire Reserve Fund | | | |
| Capital Outlay - Fire Equipment | 81,000 | 148,900 | 67,900 |

9. Post Employment Benefits

The Township does not provide any post employment benefits other than pension benefits.

10. Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical and workman's compensation benefits provided to employees. The Township has purchased commercial insurance for the various risks of loss stated above.

Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage's obtained through commercial insurance during the past year.

11. Pension Plan

The Township provides pension benefits to all of its elected officials through a deferred compensation plan. The plan is administered by Manulife and funding is through a group flexible fund retirement contract (participating) with the Nationwide Life Insurance Company. Elected officials are 100% vested upon contribution, the Township contributes 15 percent of elected officials' gross earnings and elected officials voluntarily contribute up to five percent of earnings. In accordance with these requirements, the Township contributed \$4,597.50 during the current year, and elected officials contributed \$1,532.50.

Township of Watertown

Notes To Financial Statements
For Year Ended March 31, 2004

12. Long-Term Debt

The following is a summary of the debt outstanding of the Township as of March 31, 2004:

Installment Loan – Public Capital Corporation

On March 15, 2003, the Township borrowed \$68,000 from Public Capital Corporation for a 2003 FL70 – Freightliner Tanker. The note bears interest at the rate of 5.19% per annum and is due in four annual installments of \$19,529.05 beginning May 1, 2004.

The general long-term debt of the Township and the changes therein, are summarized as follows:

| <u>Primary Government</u> | <u>Balance April 1, 2003</u> | <u>Additions</u> | <u>(Reductions)</u> | <u>Balance March 31, 2004</u> |
|---------------------------------|--------------------------------------|------------------|---------------------|---------------------------------------|
| <u>Installment Loan Payable</u> | \$ 0 | \$ 68,000 | \$ 0 | \$ 68,000 |
| <u>Totals</u> | <u>\$ 0</u> | <u>\$ 68,000</u> | <u>\$ 0</u> | <u>\$ 68,000</u> |

Summary of Debt Obligations for the next five years ending March 31:

| <u>Payable In Fiscal Year Ended March 31</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--|------------------|------------------|------------------|
| 2005 | \$ 15,403 | \$ 4,126 | \$ 19,529 |
| 2006 | 16,587 | 2,942 | 19,529 |
| 2007 | 17,515 | 2,014 | 19,529 |
| 2008 | 18,495 | 1,034 | 19,529 |
| 2009 | 0 | 0 | 0 |
| After 2009 | 0 | 0 | 0 |
| Balance at March 31, 2004 | <u>\$ 68,000</u> | <u>\$ 10,116</u> | <u>\$ 78,116</u> |

Installment Loan Payable

2003 FL70 Freightliner Tanker

Dated March 15, 2003

Loan Payable May 1,

| <u>Interest Rate</u> | <u>Date of Maturity</u> | <u>Principal Outstanding March 31, 2004</u> | <u>Original Issue \$68,000 Remaining Annual Interest Cap</u> |
|--|---------------------------------|---|--|
| 5.19% | 05/01/04 | \$ 15,403 | \$ 4,126 |
| 5.19% | 05/01/05 | 16,587 | 2,942 |
| 5.19% | 05/01/06 | 17,515 | 2,014 |
| 5.19% | 05/01/07 | <u>18,495</u> | <u>1,034</u> |
| <u>Total Installment Notes Payable</u> | | <u>\$ 68,000</u> | <u>\$ 10,116</u> |

Supporting Schedules

Township of Watertown
Special Revenue Funds
Combining Balance Sheet - Cash Basis
March 31, 2004

| | <u>Fire Reserve</u> | <u>Murphy Park</u> | <u>Library</u> | <u>Totals March 31, 2004</u> |
|---|-------------------------|------------------------|-------------------------|--------------------------------------|
| <u>Assets</u> | | | | |
| Cash | \$ 46,924 | \$ 629 | \$ 2,012 | \$ 49,565 |
| Certificates of Deposit | 4,117 | 0 | 28,237 | 32,354 |
| Due From Tax Collection Fund | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| <u>Total Assets</u> | <u><u>\$ 51,041</u></u> | <u><u>\$ 629</u></u> | <u><u>\$ 30,249</u></u> | <u><u>\$ 81,919</u></u> |
| <u>Liabilities & Fund Equity</u> | | | | |
| <u>Liabilities</u> | | | | |
| Accrued Payroll Taxes | \$ 0 | \$ 151 | \$ 344 | \$ 495 |
| <u>Total Liabilities</u> | <u>0</u> | <u>151</u> | <u>344</u> | <u>495</u> |
| <u>Fund Equity</u> | | | | |
| Fund Balances: | | | | |
| Unreserved - Undesignated | <u>51,041</u> | <u>478</u> | <u>29,905</u> | <u>81,424</u> |
| <u>Total Fund Equity</u> | <u>51,041</u> | <u>478</u> | <u>29,905</u> | <u>81,424</u> |
| <u>Total Liabilities & Fund Equity</u> | <u><u>\$ 51,041</u></u> | <u><u>\$ 629</u></u> | <u><u>\$ 30,249</u></u> | <u><u>\$ 81,919</u></u> |

Township of Watertown

Special Revenue Funds
Combining Statement of Revenues, Expenditures &
Changes in Fund Balance - Cash Basis
For The Year Ended March 31, 2004

| | Fire Reserve | Murphy Park | Library | Totals March 31, 2004 |
|---|------------------|----------------|------------------|-----------------------------|
| <u>Revenues</u> | | | | |
| Fire Assessment | \$ 44,644 | \$ 0 | \$ 0 | \$ 44,644 |
| Cnty/St. Shared Rev. | 0 | 0 | 19,329 | 19,329 |
| Charges for Services | 18,647 | 0 | 0 | 18,647 |
| Land Division Assessment | 0 | 65,531 | 0 | 65,531 |
| Donations | 4,016 | 0 | 0 | 4,016 |
| Fines & Forfeits | 0 | 0 | 76 | 76 |
| Interest | 304 | 0 | 542 | 846 |
| Loans & Grants | 100,130 | 0 | 0 | 100,130 |
| Sale of Real Estate | 0 | 93,550 | 0 | 93,550 |
| Miscellaneous | 0 | 0 | 1,151 | 1,151 |
| <u>Total Revenues</u> | <u>167,741</u> | <u>159,081</u> | <u>21,098</u> | <u>347,920</u> |
| <u>Expenditures</u> | | | | |
| Public Safety | 163,445 | 0 | 0 | 163,445 |
| Recreation & Parks | 0 | 168,305 | 0 | 168,305 |
| Cultural - Library | 0 | 0 | 26,932 | 26,932 |
| <u>Total Expenditures</u> | <u>163,445</u> | <u>168,305</u> | <u>26,932</u> | <u>358,682</u> |
| <u>Excess of Revenues Over (Under) Expenditures</u> | 4,296 | (9,224) | (5,834) | (10,762) |
| <u>Other Financing Sources (Uses)</u> | | | | |
| Operating Transfers In (Out) | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| <u>Excess of Revenues & Other Sources Over (Under) Expenditures & Other Uses</u> | 4,296 | (9,224) | (5,834) | (10,762) |
| <u>Fund Balances - April 1, 2003</u> | <u>46,745</u> | <u>9,702</u> | <u>35,739</u> | <u>92,186</u> |
| <u>Fund Balances - March 31, 2004</u> | <u>\$ 51,041</u> | <u>\$ 478</u> | <u>\$ 29,905</u> | <u>\$ 81,424</u> |

Township of Watertown
Fire Reserve Fund
Statement of Revenues, Expenditures &
Changes in Fund Balance - Cash Basis
Actual Compared to Budget
For The Year Then Ended March 31, 2004

| | <u>Amended Budget</u> | <u>Actual</u> | <u>Over (Under) Budget</u> |
|---|---------------------------|------------------|------------------------------------|
| <u>Revenues</u> | | | |
| Fire Assessment | \$ 41,000 | \$ 44,644 | \$ 3,644 |
| Fire runs | 16,000 | 18,647 | 2,647 |
| Interest | 150 | 304 | 154 |
| FEMA Grant | 0 | 32,130 | 32,130 |
| Loan Proceeds | 0 | 68,000 | 68,000 |
| Miscellaneous - Donation | 36,150 | 4,016 | (32,134) |
| <u>Total Revenues</u> | <u>93,300</u> | <u>167,741</u> | <u>74,441</u> |
| <u>Expenditures</u> | | | |
| Wages & Payroll Taxes | 8,450 | 7,598 | 852 |
| Repairs & Maintenance | 3,500 | 3,450 | 50 |
| Supplies & Miscellaneous | 4,500 | 3,497 | 1,003 |
| Capital Outlay - Fire Equipment | 81,000 | 148,900 | (67,900) |
| <u>Total Expenditures</u> | <u>97,450</u> | <u>163,445</u> | <u>(65,995)</u> |
| <u>Excess of Revenues Over (Under) Expenditures</u> | (4,150) | 4,296 | 8,446 |
| <u>Other Financing Sources (Uses)</u> | | | |
| Operating Transfers In (Out) | <u>0</u> | <u>0</u> | <u>0</u> |
| <u>Excess of Revenues & Other Sources Over (Under) Expenditures & Other Uses</u> | (4,150) | 4,296 | 8,446 |
| <u>Fund Balances - April 1, 2003</u> | <u>46,745</u> | <u>46,745</u> | <u>0</u> |
| <u>Fund Balances - March 31, 2004</u> | <u>\$ 42,595</u> | <u>\$ 51,041</u> | <u>\$ 8,446</u> |

Township of Watertown
Murphy Park Fund
Statement of Revenues, Expenditures &
Changes in Fund Balance - Cash Basis
Actual Compared to Budget
For The Year Ended March 31, 2004

| | <u>Amended Budget</u> | <u>Actual</u> | <u>Over (Under) Budget</u> |
|--|---------------------------|----------------|------------------------------------|
| <u>Revenues</u> | | | |
| Land Division Assessment - Murphy Park | \$ 164,325 | \$ 65,531 | \$ (98,794) |
| Sale of Real Estate | 0 | 93,550 | 93,550 |
| Miscellaneous Revenues | 0 | 0 | 0 |
| <u>Total Revenues</u> | <u>164,325</u> | <u>159,081</u> | <u>(5,244)</u> |
| <u>Expenditures</u> | | | |
| Custodians & Attendants | 3,500 | 3,401 | 99 |
| Payroll Taxes | 700 | 284 | 416 |
| Lights | 3,100 | 3,053 | 47 |
| Repair & Maintenance | 2,800 | 2,687 | 113 |
| Land Division Costs - Murphy Park | 158,000 | 157,809 | 191 |
| Miscellaneous | 1,500 | 1,071 | 429 |
| <u>Total Expenditures</u> | <u>169,600</u> | <u>168,305</u> | <u>1,295</u> |
| <u>Excess of Revenues Over (Under) Expenditures</u> | <u>(5,275)</u> | <u>(9,224)</u> | <u>(3,949)</u> |
| <u>Fund Balances - April 1, 2003</u> | <u>9,702</u> | <u>9,702</u> | <u>0</u> |
| <u>Fund Balances - March 31, 2004</u> | <u>\$ 4,427</u> | <u>\$ 478</u> | <u>\$ (3,949)</u> |

Township of Watertown

Library Fund Statement of Revenues, Expenditures & Changes in Fund Balance - Cash Basis Actual Compared to Budget For The Year Ended March 31, 2004

| | <u>Amended Budget</u> | <u>Actual</u> | <u>Over (Under) Budget</u> |
|--|---------------------------|------------------|------------------------------------|
| <u>Revenues</u> | | | |
| County/State Shared Revenue | \$ 20,000 | \$ 19,329 | \$ (671) |
| Book Fines & Penalties | 100 | 76 | (24) |
| Miscellaneous | 200 | 1,151 | 951 |
| Interest | 100 | 542 | 442 |
| <u>Total Revenues</u> | <u>20,400</u> | <u>21,098</u> | <u>698</u> |
| <u>Expenditures</u> | | | |
| Wages | 12,400 | 12,958 | (558) |
| Books | 5,000 | 3,316 | 1,684 |
| Office Supplies | 2,000 | 1,528 | 472 |
| Payroll Taxes | 1,000 | 991 | 9 |
| Rent | 4,800 | 4,800 | 0 |
| Repair & Maintenance | 500 | 434 | 66 |
| Miscellaneous | 3,700 | 1,303 | 2,397 |
| Telephone | 1,500 | 1,602 | (102) |
| <u>Total Expenditures</u> | <u>30,900</u> | <u>26,932</u> | <u>3,968</u> |
| <u>Excess of Revenues Over (Under) Expenditures</u> | (10,500) | (5,834) | 4,666 |
| <u>Fund Balances - April 1, 2003</u> | <u>35,739</u> | <u>35,739</u> | <u>0</u> |
| <u>Fund Balances - March 31, 2004</u> | <u>\$ 25,239</u> | <u>\$ 29,905</u> | <u>\$ 4,666</u> |

Township of Watertown

Combining Balance Sheet

All Fiduciary Funds

March 31, 2004

| | <u>Fiduciary Fund Types</u> | | <u>Totals March 31, 2004</u> |
|-----------------------------------|--|--------------------------------------|--------------------------------------|
| | <u>Current Tax Collection Fund</u> | <u>Trust and Agency Fund</u> | |
| <u>Assets</u> | | | |
| Cash - Savings & Certificates | \$ 1 | \$ 5,256 | \$ 5,257 |
| <u>Total Assets</u> | <u>\$ 1</u> | <u>\$ 5,256</u> | <u>\$ 5,257</u> |
| <u>Liabilities</u> | | | |
| Due To - General Fund | \$ 1 | \$ 0 | \$ 1 |
| Due To - Other Gov'ts & Taxpayers | 0 | 5,256 | 5,256 |
| <u>Total Liabilities</u> | <u>\$ 1</u> | <u>\$ 5,256</u> | <u>\$ 5,257</u> |

June 8, 2004

Members of the Township Board
Watertown Township
Tuscola County, Michigan

In accordance with your request, I have made an examination of the financial statements of Watertown Township for the fiscal year ended March 31, 2004. During the course of my examination the following items have come to my attention.

1. The Township needs to prepare a salary resolution on an annual basis, even if there are no salary increases requested.
2. All paid bills must be approved in the minutes. Authorization to pay bills stems from board approval. Thus, one should be able to trace paid bills to the minutes. To do this, identification of the actual bills to be paid must be part of the minutes. The motion to pay bills must identify the specific bills that are to be paid.
3. Per P.A. 621 of 1968, the board does not have authorization to spend monies that would exceed the current budget. The budget must be amended prior to the expenditure exceeding the budgeted item. All budget amendments must be part of the minutes. The amendment in the minutes must balance, meaning, that if there is an addition to one line item, there must also be a subtraction of an equal amount on another line item.
4. During the course of the audit, it came to my attention that the internal control for the Murphy Park receipts and collection of funds was inadequate. To strengthen internal control and safeguard the Township's assets, a system needs to be implemented that will assure all payments received by the Township are properly deposited and recorded in the Township records. The Township should establish the total funds to be collected by plat and lot number, cross-referenced with the names of the owners. As payments are received, they should be able to be traced to the deposits and the plat and lot numbers to which they belong.

I thank Township officials and employees for the cooperation I received in the completion of this examination.

If I can be of any assistance or should any questions arise, please contact me.

Sincerely,

Lehn King

Lehn L. King
Certified Public Accountant